BEFORE THE POSTAL RATE COMMISSION WASHINGTON, D.C. 20268-0001

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MAILING ONLINE SERVICE

Docket No. MC98–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS LIM TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-ST9-1-10)

The United States Postal Service hereby provides the responses of witness Lim to the following interrogatories of the Office of the Consumer Advocate: OCA/ USPS-ST9—1-10, filed on January 25, 1999.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr. Chief Counsel, Ratemaking

David H. Rubin

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RESPONSE OF POSTAL SERVICE WITNESS LIM TO INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE OCA/USPS-ST9-1. Page 1 of 6

OCA/USPS-ST9-1. These questions concern Library Reference MC98-1/27.

- a. Unnumbered pages 1 and 2 of LR MC98-1/27 present "MOL" costs.
 - i. Generally, what function is performed by the material and equipment listed as "MOL?"
 - ii. At what stage of the POL/MOL process is this equipment and material used?
 - iii. Please provide a breakdown of the discrete costs that sum to "MOL" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
- b. Unnumbered page 3 of LR MC98-1/27 presents "MOL Data Network" costs.
 - i. Generally, what function is performed by the material and equipment listed as "MOL Data Network?"
 - ii. At what stage of the POL/MOL process is this equipment and material used?
 - iii. Please provide a breakdown of the discrete costs that sum to "MOL Data Network" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
- c. Unnumbered page 4 presents "Print Sites" costs. Please confirm that the material and equipment listed for "Print Sites" are the computer hardware, software, and hardware/software maintenance required at each print site.
 - i. Is the total cost of \$9,527.00 for one print site or multiple print sites? Please explain.
 - ii. Does the total cost of \$9,527.00 include the back-up server at each print site? If not, then would all costs listed for "Print Sites" double to reflect the fact that there is an active server and a back-up server? Please explain.
 - iii. How will the \$9,527.00 cost figure change as each new print site is added? For example, if the number of print sites doubles, would the \$9,527.00 cost double? Please explain.
- d. Unnumbered page 5 of LR MC98-1/27 presents "Web Server" costs.

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- i. Generally, what function is performed by the material and equipment listed as "Web Server?"
- ii. At what stage of the POL/MOL process is this equipment and material used?
- iii. Please provide a breakdown of the discrete costs that sum to "Web Server" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
- e. Unnumbered page 6 of LR MC98-1/27 presents "Database Server" costs.
 - i. Generally, what function is performed by the material and equipment listed as "Database Server?"
 - ii. At what stage of the POL/MOL process is this equipment and material used?
 - iii. Please provide a breakdown of the discrete costs that sum to "Database Server" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
- f. Unnumbered page 7 of LR MC98-1/27 presents "Datamart Server" costs.
 - i. Generally, what function is performed by the material and equipment listed as "Datamart Server?"
 - ii. At what stage of the POL/MOL process is this equipment and material used?
 - iii. Please provide a breakdown of the discrete costs that sum to "Datamart Server" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.

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RESPONSE:

a.

- i-ii. The components listed as "MOL" pertain to the main function of the MOL processing system. These components include a central Unix server and multi-processing Cubix boxes. They control and process the jobs that are initiated by users through the use of the web servers. These components are the core components of the MOL system in controlling and processing the MOL documents, from their submission by users until their dispatch to print sites.
- iii. It is important to note that my Exhibits provide all the necessary IT costs associated with the MOL program categorized by the functional areas and cost categories presented in my testimony. Library Reference 27/MC98-1 contains a source list of hardware, software, and maintenance components that have not directly been categorized into one-time and variable. Instead, these components were regrouped as presented in my Exhibits A through F. Exhibit G (Derivation of One-Time & Variable Costs) provides all the cost in the same functional and cost categories broken down into either one-time or variable costs. There are no costs that are a combination of one-time and variable since one-time costs are incurred prior to the onset of the experiment and variable costs follow the start of the experiment. No "allocation factor" was necessary. Therefore, Exhibit G provides

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derivation of one-time and variable costs for the complete MOL IT system.

b.

- i-ii. The components listed as "MOL Data Network" pertain to the main networking components for MOL, such as the main switch for the MOL components and the routers for communicating with print sites. These components are used in the networking of the MOL system components themselves and of the MOL system to systems at the print sites.
- iii. See my response to OCA/USPS-ST9-1(a)(iii).
- c. The "Print Site" costs shown in LR 27/MC98-1 pertain only to the hardware and hardware service maintenance costs for each Print Site. The costs for the Print Sites are better represented in my Exhibit F (MOL Print Sites). The custom software needed by the Print Sites is included in the MOL application development costs shown in Exhibit A, Item 63.
 - i. The cost of \$9,527.00 is not the total cost for either one or multiple print sites. Please see my Exhibit F which represents the total cost for all print sites for the experiment.
 - ii. Whether each print site will be equipped with a back-up server has not been determined. However, if a back-up server were added to each print site, the total cost shown in Exhibit F in Item 26 would increase by

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\$88,230. This number is derived from the addition of a backup Ultra 5 and FastEthernet Adapter (Items 2 and 4 respectively) for each of the print sites.

iii. As explained in my response to interrogatory OCA/USPS-ST9-1(c)(i), the \$9,527.00 cost figure is not representative of a print site's cost. The hardware cost of adding an additional print site would be \$8,978 (the Unit Cost sum of Items 2–8 in Exhibit F). Additionally, services costs such as the T1 installation cost would be \$2,000 and the T1 service cost would be \$62,400/year multiplied by one or two years, depending on if the print site was added in the first or second program year of the experiment. (In order to take a conservative approach, the full cost of the T1 service was used for each print site since it was not specified in which month of the program year, each print site would be added.)

d.

- i-ii. "Web Server" components, including a Sun Enterprise 5500 and a 4500, constitute the main web servers hosting the POL web site and providing the MOL system interface.
- iii. See my response to OCA/USPS-ST9-1(a)(iii).

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- i-ii. The "Database Server" components host the main database for the POL system. The database will be used to store user and system data for the operation of the system.
- iii. See my response to OCA/USPS-ST9-1(a)(iii).

f.

- i-ii. The components listed as "Datamart Server" pertain to a database that will store data used for management reporting purposes.
- iii. See my response to OCA/USPS-ST9-1(a)(iii)

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OCA/USPS-ST9-2. Throughout your testimony, you use the term "variable cost[s]."

- a. Do you use "variable cost" as equivalent to "volume variable cost?" Please explain.
- b. Do you use "variable cost" as equivalent to "short-run marginal cost?" Please explain.
- c. What period of time do you believe would be the "short run" in this case? Explain your reasoning in choosing this period of time.
- d. Do you use "variable cost" as equivalent to "long-run marginal cost?" Please explain.
- e. What period of time do you believe would be the "long run" in this case? Explain your reasoning in choosing this period of time.
- f. Do you use "variable cost" as equivalent to "ongoing cost," i.e., the term used by witness Seckar in response to PB/USPS-T2-2 (Tr. 5/1050-51)? See your testimony at page 2, lines 6-8.
- g. Do "ongoing costs," as you and witness Seckar employ that term, include any fixed (i.e., non-volume-variable), costs?
 - If so, state the specific costs for MOL that are fixed, ongoing costs.
 Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
 - ii. Also, state (and cite) the specific costs for POL that are fixed, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- h. Is the term "ongoing costs" limited to "short-run volume variable costs?"
 - State the specific costs for MOL that are short-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
 - ii. Also, state (and cite) the specific costs for POL that are short-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- i. Does the term "ongoing costs" include "long-run volume variable costs?"
 - i. State the specific costs for MOL that are long-run volume variable, ongoing costs. Provide citations for the listings of such costs by table,

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- exhibit, workpaper, etc., including page, column and row (or line) numbers.
- ii. Also, state (and cite) the specific costs for POL that are long-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- j. At page 2, lines 8-11, of your testimony, you characterize one-time costs as consisting mainly of hardware, software, and installation and development services.
 - i. Are these "start-up" costs? Please explain.
 - ii. At page 2 of your testimony you state that you have separated information technology costs into one-time costs and variable costs, thereby conforming to witness Seckar's analysis presented in response to interrogatory PB/USPS-T2-2 (Tr. 5/1050-51). In his response he states that "fixed costs are one-time start-up costs for the experimental period . . . " Do you share his view that the one-time costs are essentially the start-up costs for MOL? If your answer is negative, then please explain.
- k. In his response to interrogatory PB/USPS-T2-2, witness Seckar states that, "The Table 15 costs referenced in [the] question are not start-up costs, and therefore should not be included in the "fixed" category.
 - i. Do you agree that he seems to view "fixed" costs as limited to "start-up" costs? If you do not agree, please give your reasons.
 - ii. For the purpose of your cost analysis in this proceeding, do *you* define "fixed" costs as limited to "start-up" costs? If this is not your definition, then state *your* definition.
 - iii. Are the start-up costs of a specific service part of the incremental costs of the service? Please explain.
- I. Witness Seckar also states in the cited response that,

While these costs [seemingly the Table 15 costs] do not vary based on the volume changes forecasted for the five-year period, moreover, they would vary with more extreme volume fluctuations. For example, if the Mailing Online service were to end after the experiment concludes, technical help desk manager costs in years 2001 through 2003 would not be incurred as a result of the volumes in these years disappearing.

i. Do you agree that witness Seckar seems to be stating that costs that do not vary, based on volume changes, over a five-year period can still be variable? If you do not agree, give your reasons for disagreeing.

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- ii. Is it *your* view that costs that do not vary, based on volume changes, over a five-year period are variable? Please explain. Are they "volume variable?" Please explain. If they are variable, but not volume variable, please explain the distinction.
- iii. Do you agree that witness Seckar seems to be stating that a cost is characterized as variable if it disappears when the entire service for which it is incurred is terminated and, therefore, volume goes from some positive number to zero? If you do not agree, please give your reasons.
- iv. Do you hold the view that a cost should be characterized as variable if it disappears when the entire service for which it is incurred is terminated. and, therefore, volume goes from some positive number to zero? Please explain.
- v. Do you believe that variable costs are equivalent to the incremental costs of a service? Please explain.
- vi. Do you believe that the *prospective* incremental costs of a service may be partly volume variable and partly fixed? Please explain.
- vii. Should the *fixed* incremental costs of a service be termed "variable" because they are ongoing, i.e., they go on because the service goes on? Please explain.

RESPONSE:

- a-e. In my testimony, the term "variable cost" is used to define all costs that are not one-time costs associated with the initiation of the MOL experiment. Variable costs are any costs that occur after the onset of the experiment. Whether it is equivalent to "volume variable cost" or other cost terminology not used in my testimony is beyond the scope of my information technology related testimony. Therefore, I am not able to provide an expert opinion on such.
- f. As explained in OCA/USPS-ST9-2(a-e), my definition of one-time and variable costs are based on when the cost was incurred, before or after the onset of the experiment. Witness Seckar's updated response to the hearing question, Tr. 7/1733-34, shows that Witness Seckar uses similar definitions of variable and

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one-time costs.

g-i. I do not use the term "ongoing costs" in my testimony.

j.

- i. Intuitively, one-time costs consist of the hardware, software, and installation and development services that are needed in the start-up of the operations and therefore may be categorized as "start-up" costs.
- ii. I do share Witness Seckar's views that one-time costs are essentially the start-up costs for MOL.

k.

- My understanding of what witness Seckar "seems to view" would only amount to speculation.
- ii-iii. I do not use the terms "fixed" or "incremental" in my testimony. These terms are beyond the scope of my expertise. I am an expert in information technology costs, but am not an economist and have no background in the history of Postal Service costing theory as analyzed in Commission proceedings.

١.

This was not the focus of my analysis, and is not my area of expertise.
 As stated above, my analysis separates costs into one-time and

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variable costs as defined in my response to OCA/USPS-ST9-2(a-e).

Therefore, I cannot testify as to what witness Seckar seems to state.

ii-viii. See my response to OCA/USPS-ST9-2(a-e).

RESPONSE OF POSTAL SERVICE WITNESS LIM TO INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE OCA/USPS-ST9-3, Page 1 of 3

OCA/USPS-ST9-3. At page 3 of your testimony, you set forth a diagram of your methodology for gathering and estimating MOL costs.

- a. Please present the costs of the complete POL system and show the allocation into POL, MOL, and SOL costs (step 1). Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- b. Please present all cost allocations made at step 2. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- c. Please present all cost allocations made at step 3. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- d. Please present all cost allocations made at step 4. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- e. Please present all costs and/or cost allocations made at step 5. Include the
 allocation factor(s) used and your rationale for choosing the particular allocation
 factor(s). Also provide any source materials you consulted in choosing the
 particular allocation factor(s).
- f. Is it correct that your methodology classifies costs in the following way: there is some portion of POL costs that is not allocated to either MOL or SOL; rather the POL costs not specific to MOL or SOL are institutional costs to be recovered by means of a mark-up?
 - i. If you do not agree, state your reasons.
 - ii. If you do agree, what percentage of POL costs are allocated neither to MOL or SOL? Show how this percentage figure is calculated. Provide all computations and citations for any figures presented.
- g. Is it correct that at www.postofficeonline.com, mailers and recipients of Express Mail packages can track the movements of a package, and mailers and recipients of Priority Mail can confirm delivery of a package?
 - i. If you do not agree, state your reasons.

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- If you do agree, explain how you have accounted for the expenses associated with Express Mail tracking and Priority Mail delivery confirmation in your cost methodology.
- iii. If your methodology does not allocate costs to Express Mail tracking and Priority Mail delivery confirmation, explain why you have omitted such an allocation.
- h. Do you agree that First Class letters, flats, and cards, Standard A letters and flats, and Periodicals reap no direct benefits from the existence of POL?
 - i. If you do agree, then state whether it is equitable for First Class letters, flats, and cards, Standard A letters and flats, and Periodicals to help defray POL expenses in the form of a mark-up for the First, Standard A, and Periodicals subclasses.
 - ii. If you do not agree, then state your reasons.

RESPONSE:

- a. As stated in the purpose section of my testimony, "the purpose of this testimony is to present the total information technology costs for Mailing Online (MOL)". My methodology, shown in Diagram 1 on page 3, does not require analysis of POL or SOL costs. I only examine costs affected by the existence of the MOL program. Details on these other costs are accordingly beyond the scope of my testimony. Throughout my testimony, detailed information and costs are provided only for areas affected by the existence of the MOL program.
- b. The allocations between MOL-specific and MOL-shared costs are presented on pages 8 to 11 of my testimony, and in Exhibits A through F.
- c. This 100 percent allocation is described fully in Diagram 1.
- d. The cost drivers applied in step 4 are derived in pages 3 to 6 of my testimony.
- e. Step 5 adds the results from Steps 3 and 4...

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- f. Conceptually, there would be costs that are specific to POL that are not allocated to either MOL or SOL, as indicated in my Diagram 1. However, I only looked for costs driven by MOL, and therefore had no occasion to study POL or SOL in detail. Any "institutional" nature of costs is beyond both my expertise and my testimony as explained in USPS-ST9-3(a).
- g-h. These questions are beyond the scope of my expertise and factual knowledge.

 Accordingly, I am unable to respond.

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OCA/USPS-ST9-4. You discuss the POL Help Desk at page 4 of your testimony.

- a. Are you referring to the activities of the technical and/or the non-technical help desk? Please specify.
- b. What telephone number will prospective users of POL, e.g., MOL, SOL, Express Mail tracking, or Priority Mail delivery confirmation, dial to connect to the POL help desk? Please give the toll-free, long-distance, or local phone numbers that may be dialed.
- c. Since no telephone number is given at www.postofficeonline.com, how do POL customers become aware of the POL help desk telephone number? Please explain.
- d. When a caller dials the toll-free number for the Postal Service—800-222-1811 (this is the telephone number provided by calling toll-free information at 800-555-1212)—is that call automatically routed to the POL help desk? If not, what postal or contractor personnel answer queries at 800-222-1811? If these individuals are not POL help desk personnel, how have you accounted for the hardware, software, personnel, etc. costs of fielding inquiries at 800-222-1811?

RESPONSE:

- The discussion on page 4 of my testimony refers to activities of the nontechnical help desk.
- b-d. I do not know the answers to those questions, which were unnecessary for the preparation of my testimony.

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OCA/USPS-ST9-5. At pages 4-5 of your testimony, you indicate that you have allocated 20 percent of help desk calls to MOL.

- a. Is the remaining 80 percent allocated to SOL?
- b. If any calls to the POL help desk concern Express Mail tracking or Priority Mail delivery confirmation, how are these calls reflected in the cost allocation?
- c. Is any portion of the POL help desk calls allocated solely to POL and not to any specific services such as MOL, SOL, Express Mail tracking or Priority Mail delivery confirmation? If so, would these costs be classified as institutional and recovered by means of a mark-up? Please explain in full.
- d. Provide the full allocation of total help desk expenses.

RESPONSE:

- a. The remaining 80 percent is associated with other help desk costs under POL and/or SOL.
- b. All activities for the help desk not related to MOL are accounted for with other costs under POL and/or SOL.
- c-d. See my response to interrogatory OCA/USPS-ST9-3(a).

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OCA/USPS-ST9-6. At page 5 of your testimony you state that the 181GB of storage capacity is allocated to MOL (38 percent), POL, and SOL.

- a. What percentage is allocated to POL?
- b. What percentage is allocated to SOL?
- c. What percentage is allocated to Express Mail tracking? If no storage capacity costs have been allocated to Express Mail tracking, explain why not, especially in view of the fact that Express Mail packages can be tracked at www.postofficeonline.com.
- d. What percentage is allocated to Priority Mail delivery confirmation? If no storage capacity costs have been allocated to Priority Mail delivery confirmation, explain why not, especially in view of the fact that delivery of Priority Mail packages can be confirmed at www.postofficeonline.com.

RESPONSE:

a-d. The remaining 62 percent of costs would be associated with other storage costs under POL and/or SOL. See my testimony at page 5, lines 7 to 8. The exact allocations for POL or SOL, and any allocations for Express Mail tracking and Priority Mail delivery confirmation, have not been determined for the reasons stated in my response to interrogatory OCA/USPS-ST9-3(a).

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OCA/USPS-ST9-7. Isn't it correct that, at the present time, POL exists for the purpose of providing four services—MOL, SOL, Express Mail tracking, and Priority Mail delivery confirmation?

- a. If you do not agree, state your reasons for disagreeing.
- b. If you accept the premise of the question, wouldn't you agree that the most equitable allocation of POL storage capacity costs would be to include a percentage of these costs in MOL's attributable cost base? If you do not agree, please explain.
- c. If you do agree, then wouldn't it be logical to add 38 percent of the POL storage capacity costs to the 38 percent already included as MOL's discrete storage capacity requirements? If you disagree, please explain.

RESPONSE:

a-c. I have a general understanding that those options are available under POL, but I am unable to confirm the strict accuracy or completeness of the list. I have used only one ratio of 38 percent for shared functional components based on the total storage requirement for the POL, SOL, and MOL systems, as projected by the system designers (and described on page 5 of my testimony). This ratio was used to allocate costs to MOL only.

RESPONSE OF POSTAL SERVICE WITNESS LIM TO INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE OCA/USPS-ST9-8, Page 1 of 1

OCA/USPS-ST9-8. At page 5 of your testimony, you state that two of four Web servers are due to POL requirements. By virtue of the same reasoning outlined in interrogatory OCA/USPS-ST9-7 above, wouldn't it be most equitable to allocate a portion of the two POL Web server costs to MOL since MOL is one of only four services currently offered at www.postofficeonline.com, i.e., POL? If you disagree, state your reasons.

RESPONSE:

The two Web servers are not affected by the existence of the MOL program, and therefore do not produce costs that are MOL-specific or MOL-shared as described in my Diagram 1. See also my response to OCA/USPS-ST9-7.

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OCA/USPS-ST9-9. Of the 5000 SOL/POL users described at page 5 of your testimony, what percentage of these consists of SOL users and what percentage consists of POL users?

- a. Would Express Mail tracking customers or Priority Mail delivery confirmation customers ever be attempting to communicate over the T3 Internet connection at the same time as the MOL or SOL users?
- b. If so, why haven't you determined the percentage of simultaneous usage for which Express Mail tracking users and Priority Mail delivery confirmation users would be responsible?

RESPONSE:

I am unable to answer these questions since they are beyond the scope of my testimony and therefore were unnecessary to consider when preparing my testimony. See also my response to interrogatory OCA/USPS-ST9-3(f).

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OCA/USPS-ST9-10. The third sentence of Endnote C to your Exhibits appears to end in the middle of the sentence. Please provide the rest of the information for this Endnote.

RESPONSE:

The third sentence of Endnote C should read as was stated: "Other unit costs were obtained through communication with the designers of the systems."

DECLARATION

I, Chong Bum Lim, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Jos My Bun

Dated: FEBRUARY 1, 1999

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

David H. Rubin

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 February 1, 1999